

D70J00 Maryland Automobile Insurance Fund

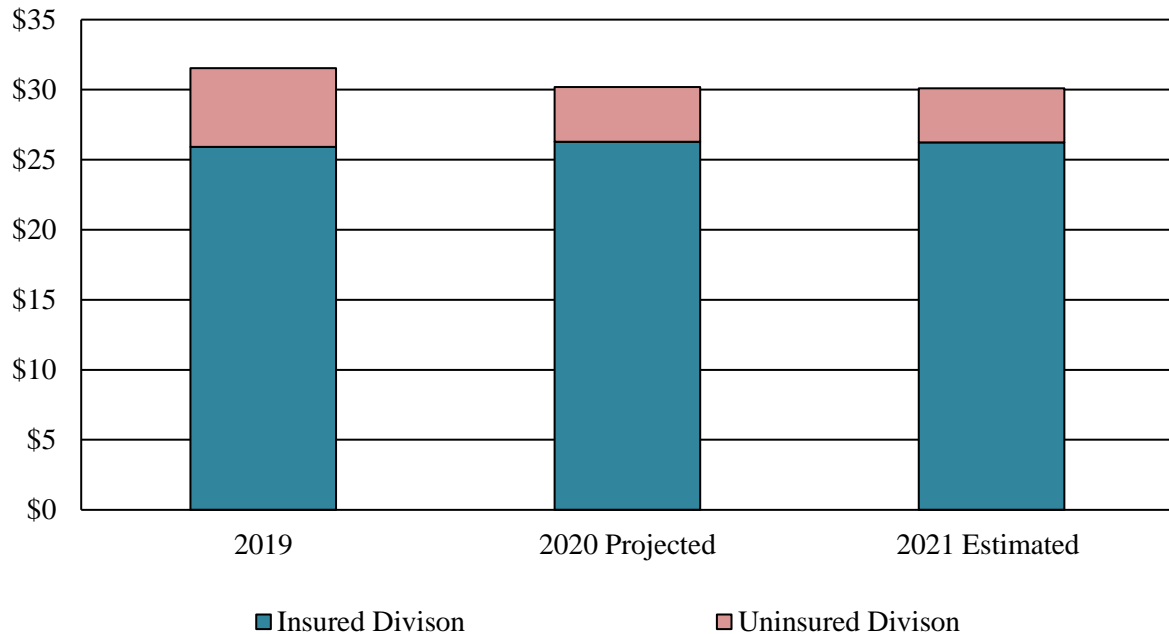
Program Description

The Maryland Automobile Insurance Fund (Maryland Auto) is an independent, nonbudgeted State agency. Similar to other insurance companies, Maryland Auto operates on a calendar year basis.

Maryland Auto is organized into two divisions. The Insured Division is the automobile insurer of last resort for Maryland residents. The Insured Division, like other automobile insurance carriers, handles claims for policyholders and is funded through premiums, investment income, and, when necessary, a surcharge on premiums statewide. The Uninsured Division administers and pays claims to residents of Maryland who are involved in accidents in Maryland with motorists who are uninsured or for hit-and-run incidents where a responsible party cannot be found. The Uninsured Division may recover money paid out from the uninsured at-fault party through collections on notes and judgments. In addition, the Uninsured Division receives income from investments and uninsured motorist fines.

Operating Budget Summary

Calendar 2021 Budget Decreases \$0.09 Million, or 0.3%, to \$30.1 Million
(\$ in Millions)



Calendar 2021 Budget

As shown in **Exhibit 1**, the proposed budget for Maryland Auto in calendar 2021 is expected to decrease by \$88,871 compared with the projected calendar 2020 spending. However, because the calendar 2020 numbers have not yet been finalized, these numbers are subject to change. When compared to actual spending in calendar 2019, the proposed budget reflects a nearly \$1.5 million decrease entirely absorbed within the Uninsured Division.

Exhibit 1 Proposed Budget Maryland Automobile Insurance Fund (\$ in Thousands)

	<u>Insured Division</u>	<u>Uninsured Division</u>	<u>Nonbudgeted Fund Total</u>
Calendar 2020 Estimated	\$26,277	\$3,912	\$30,189
Calendar 2021 Proposed Budget	<u>26,246</u>	<u>3,855</u>	<u>30,101</u>
Calendar 2020-2021 Amount Change	-\$32	-\$57	-\$89
Calendar 2020-2021 Percent Change	-0.1%	-1.5%	-0.3%

Where It Goes:

Personnel Expenses

Insured Division

Related expenses	\$51
Salaries (noncontractual)	-346

Uninsured Division

Salaries (noncontractual)	177
Related expenses	45

Combined Expenses

Other personnel expenses	2
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Other Changes

Insured Division

Purchase of computer software/equipment and maintenance.....	302
Incentive compensation.....	150
Commercial reporting services.....	44
Outsourced services.....	-18
Contractual salary and related	-137

Uninsured Division

Media.....	77
Bank service charges	-54

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Where It Goes:	<u>Change</u>
Technical service and support	-205
<i>Combined Expenses</i>	
Other changes	-177
Total	-\$89

Note: The Maryland Automobile Insurance Fund operates on a calendar year basis. Numbers may not sum due to rounding.

Source: Maryland Automobile Insurance Fund

Insured Division Financial Statement

Exhibit 2 presents the financial statement of the Insured Division of Maryland Auto. In calendar 2021, the Insured Division's income is projected to decrease by approximately \$7.6 million compared to calendar 2020 due to falling earned premium income and investment income. This is mirrored in the data on vehicles insured, which shows roughly 8,330 fewer vehicles insured by Maryland Auto in calendar 2020 versus 2019.

Total expenditures are projected to increase by \$7.4 million in calendar 2021 versus 2020. The Insured Division is projected to have a net operating loss of \$10.3 million in calendar 2021. This would lead to an estimated ending surplus of approximately \$43.3 million in calendar 2021, down from approximately \$53.6 million in calendar 2020. **Maryland Auto should comment on the financial health of the Insured Division and the likelihood of imposing an assessment in the future.**

Exhibit 2
Maryland Automobile Insurance Fund
Insured Division Financial Statement
Calendar 2019-2021

	<u>Actual 2019</u>	<u>Estimated 2020</u>	<u>Estimated 2021</u>
Earned Premium	\$88,626,599	\$74,730,832	\$69,862,459
Investment Income	5,170,201	5,552,683	2,814,330
Other Income	141,954	94,520	95,530
Income	\$93,938,754	\$80,378,035	\$72,772,319
Claims Incurred	\$54,417,683	\$39,276,308	\$46,175,231
Claim Expenses Incurred	19,266,135	19,300,480	19,456,031
Other Expenses	19,028,964	17,025,450	17,403,889
Expenditures	\$92,712,782	\$75,602,238	\$83,035,151
Net Gain or Loss	\$1,225,972	\$4,775,797	-\$10,262,832
Beginning Surplus	\$35,631,014	\$46,327,425	\$53,576,956
Net Income	1,225,972	4,775,797	-10,262,832
Change in Unrealized Gains	9,203,263	2,279,336	
Change to Nonadmitted Assets	197,330	194,398	
Release of Overrecoupment	69,846		
Ending Surplus	\$46,327,425	\$53,576,956	\$43,314,124
Assessment Threshold			\$18,502,992
Ratio of Surplus to Assessment Threshold			2.34

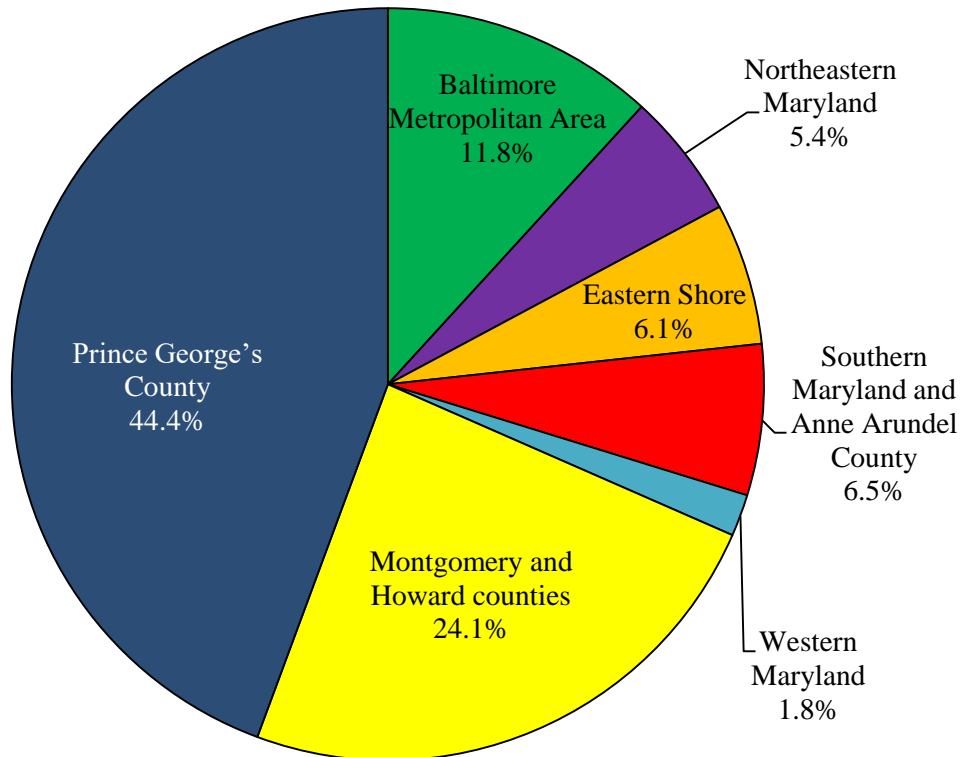
*The Maryland Automobile Insurance Fund is on a calendar year basis for its financial statements in accordance with State regulations for insurance companies. Year-end adjustments and reserve changes may significantly change the results. All 2020 and 2021 numbers are subject to adjustment.

Source: Maryland Automobile Insurance Fund

Active Vehicle Analysis

Exhibit 3 provides information on the geographic distribution of vehicles insured by Maryland Auto. Prince George's County has the highest share of the vehicles insured by Maryland Auto at 44.4% in calendar 2020. Montgomery and Howard counties collectively come in second with 24.1% in calendar 2020.

Exhibit 3
Active Vehicle Analysis
Fiscal 2020



Note: Projected 2020 has actuals through December 19, 2020.

Source: Maryland Automobile Insurance Fund

Uninsured Division Financial Statement

Exhibit 4 presents the financial statement of the Uninsured Division of Maryland Auto. The Uninsured Division's largest source of income is revenue received from the Motor Vehicle Administration uninsured motorist fine per Transportation Article § 17-106. Maryland Auto's share in calendar 2021 is projected to be \$4.3 million. This amount is tied in statute to cost-of-living increases, which is projected to be 3.5% in calendar 2021.

Exhibit 4
Maryland Automobile Insurance Fund
Uninsured Division Financial Statement
Calendar 2019-2021 Estimated

	<u>Estimated 2019</u>	<u>Projected 2020</u>	<u>Estimated 2021</u>
MVA Fines	\$3,958,339	\$4,139,280	\$4,284,154
Collections on Notes and Judgements	841,044	727,478	545,608
Investment Income	91,266	60,730	80,000
Other Income	50,752	22,512	
MVA Amnesty Program	3,990,409	2,490,906	50,000
Income	\$8,931,810	\$7,440,906	\$4,959,762
Claims Incurred	\$1,647,331	\$533,893	\$777,927
Claims Expenses Incurred	1,106,881	858,275	884,023
Collection Expenses	645,438	530,528	546,444
Administrative Expenses	1,731,006	1,522,528	2,795,349
MVA Amnesty Program	2,549,190	1,197,218	36,000
Expenditures	\$7,679,846	\$4,642,442	\$5,039,743
Net Gain or Loss	\$1,251,964	\$2,798,464	-\$79,981
Beginning Surplus	\$1,323,686	\$2,605,151	\$5,406,678
Net Income	1,251,964	2,798,464	-79,981
Unrealized Gain	29,501	3,063	
Ending Surplus	\$2,605,151	\$5,406,678	\$5,326,697

MVA: Motor Vehicle Administration

Note: MVA Amnesty Program is a one-time source of program funds.

Note: The Maryland Automobile Insurance Fund reports its financial statements by calendar year in accordance with State regulations for insurance companies. Year-end adjustments and reserve changes may significantly change the results. All 2020 and 2021 numbers are subject to adjustment.

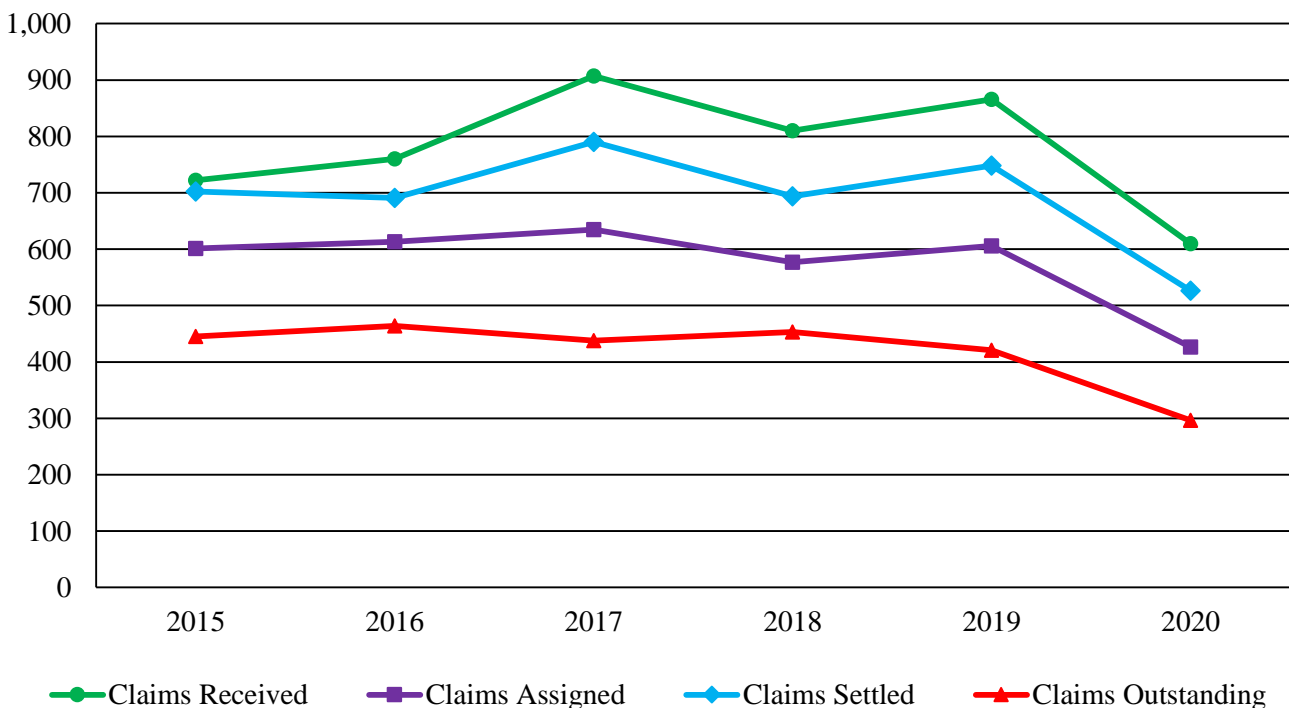
Source: Maryland Automobile Insurance Fund

Key Observations

1. Uninsured Division's Claims Activity

Exhibit 5 shows the claims activity for Maryland Auto's Uninsured Division. Across all reported measures, estimated numbers for calendar 2020 reflect claim activity declining by approximately 29.7%. Maryland Auto does not control the number of claims received and assigned in the Uninsured Division. Claims assigned are a function of the eligible claims received. Maryland Auto states that the decline seen in calendar 2020 has been impacted by the economic downturn resulting from COVID-19.

Exhibit 5
Uninsured Division's Claims Activity
Calendar 2015-2020

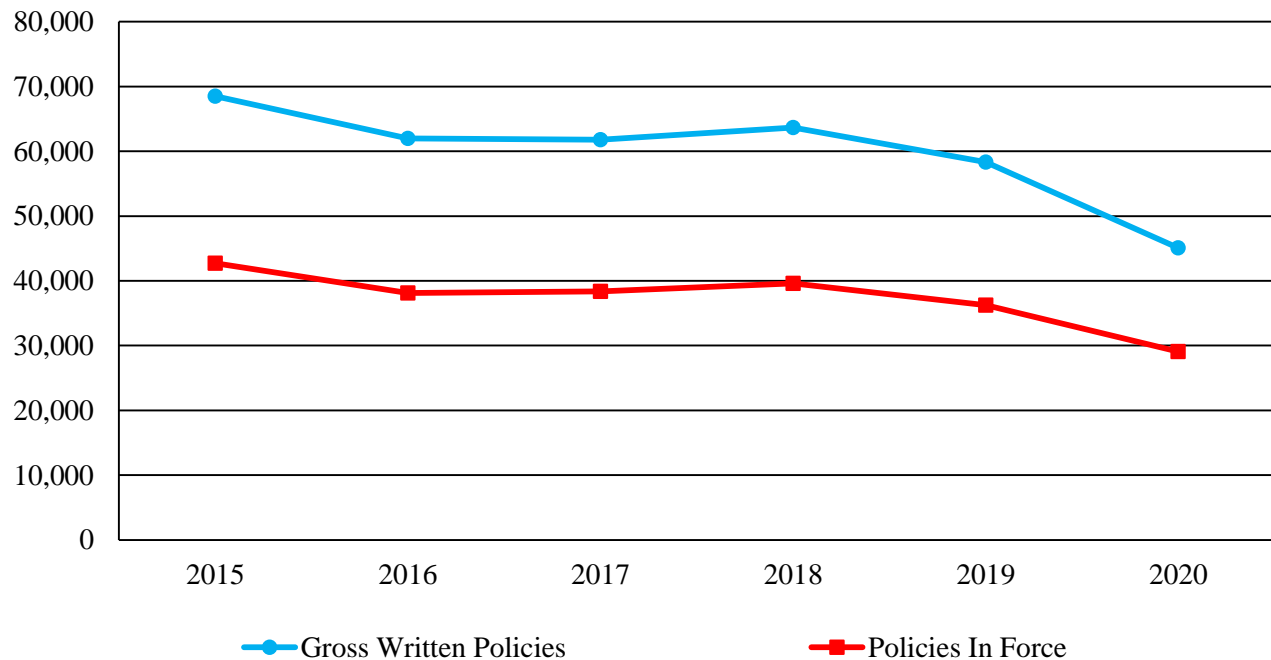


Source: Maryland Automobile Insurance Fund

2. Insured Division's Policies and Claims Decrease

As shown in **Exhibit 6**, the number of gross written policies in the Insured Division saw a dramatic decrease to a projected 45,091 in calendar 2020 from 58,328 in calendar 2019. There were an estimated 29,087 policies in force in calendar 2020, down 19.8% from calendar 2019, which closed with 36,261 policies in force. Maryland Auto believes that this decline in 2020 is largely driven by changes in the underwriting practices of the other carriers seeking to expend their respective books of business. Additionally, the decline has been impacted by the economic downturn resulting from COVID-19.

Exhibit 6
Policies
Insured Division
Calendar 2015-2020



Source: Maryland Automobile Insurance Fund

3. Installment Plan Subscription Rate Remains Low

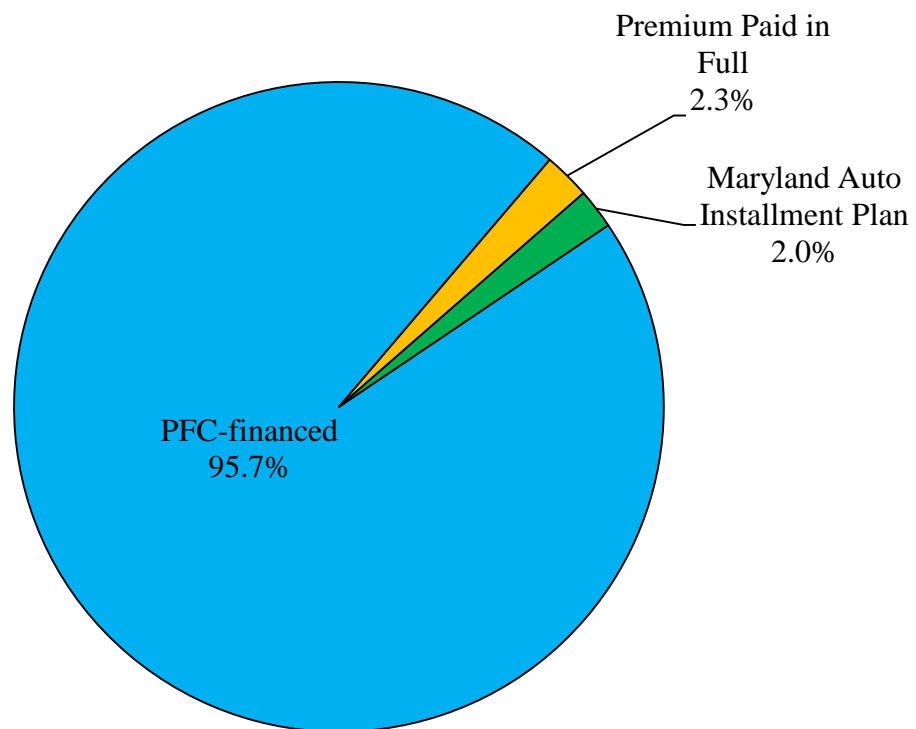
As a result of Chapter 334 of 2013, Maryland Auto was authorized to begin accepting installment payment plans beginning October 1, 2013. Previously, Maryland Auto had required either payment of a full year's plan or the acceptance of a loan agreement through a premium finance company (PFC). Current law allows for four different payment plans depending on the cost of the annual

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premium. If the total annual premium is less than \$3,000, policyholders have the option to pay a 25% down payment and then pay the balance over either three or six payments. For policies that have a total annual cost of \$3,000 or more, policyholders have the option to pay a 20% down payment and pay the balance in either four or eight installments.

Exhibit 7 shows the breakdown between PFC-financed premiums, premiums paid in full, and the installment payment plan. The number of Maryland Auto customers who choose to use the installment plan accounts for 2% of the policies issued by Maryland Auto. Additionally, only 2.3% of customers pay their premium in full; the remaining 95.7% use the services of PFCs.

Exhibit 7
Insured Division Policies Issued
Calendar 2013-2020



PFC: premium finance company

Note: Data for policies issued October 1, 2013, to December 31, 2020.

Source: Maryland Automobile Insurance Fund

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Maryland Auto believes that the high down payment required by statute discourages use of the installment plan option, particularly among low-income drivers. The typical plan offered by PFCs in the State requires a down payment of between 10% and 12%. However, while PFCs can offer a lower down payment, users are required to pay interest on the agreement as a service cost for the loan. This rate is statutorily capped at 1.15% for each 30-day period of the loan per § 23-304 of the Insurance Article. Therefore, policyholders are subject to additional fees that can total hundreds of dollars that are not assessed under a Maryland Auto installment plan. Maryland Auto estimates this additional cost to be an average of roughly \$250 per insurance policy. This is money that customers end up paying to the PFC that they would not be charged using the installment payment plan.

The Department of Legislative Services (DLS) recommends that the General Assembly consider amending statute to lower the down payment on plans from 25% and 20%, respectively, to 12.5% and 10%, respectively. DLS believes that this change would increase utilization of the installment payment plans and would save Maryland drivers money.

Operating Budget Recommended Actions

1. Nonbudgeted.

Appendix 1
2020 Joint Chairmen's Report Responses from Agency

The 2020 *Joint Chairmen's Report* (JCR) requested that the Maryland Automobile Insurance Fund prepare one report. Electronic copies of the full JCR response can be found on the Department of Legislative Services Library website.

- ***Report on the Likelihood and Impact of a Maryland Automobile Insurance Fund (Maryland Auto) Assessment:*** Maryland Auto concluded in this report that it does not project an assessment before 2024. However, the 2023 surplus may be uncomfortably close to the assessment trigger. Due to the reactive nature that Maryland Auto plays in the insurance market, the actual results will depend to a large degree on the state of the automobile insurance market. It is because of that Maryland Auto notes that year-end 2022 and beyond projections to be largely speculative.

Appendix 2
Object/Fund Difference Report
Maryland Automobile Insurance Fund

<u>Object/Fund</u>	<u>CY 19</u> <u>Actual</u>	<u>CY 20</u> <u>Working</u>	<u>CY 21</u> <u>Estimate</u>	<u>CY 20 - 21</u> <u>Amount Change</u>	<u>Percent Change</u>
Objects					
01 Salaries, Wages and Fringe Benefits	\$21,785,171	\$22,003,132	\$21,885,009	-\$118,123	-0.54%
02 Tech and Special Fees	6,037,285	5,159,202	5,113,870	-45,332	-0.88%
03 Communications	759,958	571,446	628,789	57,343	10.03%
04 Travel	90,820	47,470	81,301	33,831	71.27%
06 Fuel and Utilities	112,736	96,855	109,500	12,645	13.06%
07 Motor Vehicle	159,382	140,714	146,254	5,540	3.94%
08 Contractual Services	2,099,576	1,660,830	1,706,491	45,661	2.75%
09 Supplies and Materials	164,435	111,967	111,815	-152	-0.14%
11 Equipment Additional	129,653	109,193	206,753	97,560	89.35%
13 Fixed Charges	187,771	288,232	110,388	-177,844	-61.70%
14 Land and Structures	-707				
Total Objects	\$31,526,080	\$30,189,041	\$30,100,170	-\$88,871	-0.29%
Funds					
07 Nonbudgeted Fund	\$31,526,080	\$30,189,041	\$30,100,170	-\$88,871	-0.29%
Total Funds	\$31,526,080	\$30,189,041	\$30,100,170	-\$88,871	-0.29%

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**Appendix 3
Fiscal Summary
Maryland Automobile Insurance Fund**

Program/Unit	<u>CY 19 Actual</u>	<u>CY 20 Working</u>	<u>CY 21 Estimate</u>	<u>Change</u>	<u>CY 20 - 21 Percent Change</u>
42 Insured Division	\$25,905,527	\$26,277,439	\$26,245,512	-\$31,927	-0.12%
47 Uninsured Division	5,620,553	3,911,602	3,854,658	-56,944	-1.46%
Total Expenditures	\$31,526,080	\$30,189,041	\$30,100,170	-\$88,871	-0.29%
Nonbudgeted Fund	\$31,526,080	\$30,189,041	\$30,100,170	-\$88,871	-0.29%
Total Appropriations	\$31,526,080	\$30,189,041	\$30,100,170	-\$88,871	-0.29%